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UNCLAS SECTION 01 OF 02 BRASILIA 003773

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E.O. 12958: N/A
TAGS: ENRG EINV EFIN PGOV ECON BR
SUBJECT: MORE DOUBTS ABOUT ENERGY INVESTMENT IN BRAZIL

REF: A. BRASILIA 3405
¶B. BRASILIA 2859

Sensitive but unclassified, please protect accordingly.

¶1. (SBU) SUMMARY: A visiting OPIC/private sector delegation found scant reassurance about Brazil's New Energy Model or investing in Brazil's energy sector during November 19 meetings with Brazil's energy regulatory agency (ANEEL) and the Ministry of Mines and Energy (MME). ANEEL's Superintendent called into doubt whether the GOB's energy model offered investors any safety. An MME rep defended the policy to the OPIC delegation, but refused to be drawn out on specifics. The ANEEL criticisms and MME's failure to deal in specifics left the impression of a policy adrift. End Summary.

¶2. (SBU) Superintendent Cristiano Amaral of the National Electrical Energy Agency (ANEEL) opined that Brazil's New Energy Model (Ref. A) does not give private investors any type of security. Amaral said the public consultation phase, which will end within the next two weeks, will not net great changes to boost investors' confidence. He pointed out that 80% of generation plants are publicly owned, and the primary Brazilian state-owned company Eletrobras will keep the "lion's share" of the capacity. Amaral added, "At the present time, it is very difficult to say if it is safe to invest. Even construction under some existing concessions of hydro-plants have stopped." The market uncertainty is discouraging energy sector investment. Despite this fact, he said there will be 3000 megawatts of new generating capacity completed this year, equaling 10% of installed capacity. In a telling sign, these are primarily small power plants built by private companies to meet their own needs.

¶3. (SBU) Brazil's New Energy Model is expected to be presented to Congress within the next two weeks, but would not take effect until 2005. Ministry of Mines and Energy Executive Secretary Mauricio Tolmasquim told the press recently that there would not be enough energy liberated from existing contracts to be directed into the energy pool created under the New Energy Model until then. Amaral has reservations about the model, and believes it will metamorphose one from allowing Independent Power Producers (IPPs) to find markets along side the blended energy pool into a single pool/single buyer system. He expects the lower pool prices, driven by the already-amortorized power plants, will force IPPs and free consumers to participate in the pool. Amaral hopes that political pressures will transform the New Energy Model into a more reasonable law that encourages foreign investment and protects IPPs.

¶4. (U) Amaral said that the renewable energy program is a bright spot in the sector, since small renewable plants can operate outside of the energy pool under the New Energy Model. Renewable energy operations are assessed half of the transmission tariffs, and Eletrobras guarantees a minimum price. These incentives are granted for any renewable energy plant generating under 30 megawatts. Currently, 100 wind projects have permits under this program.

¶5. (U) Ministry of Mines and Energy Program Director Maria Passos, in contrast, claimed energy sector investment is still flowing from Spain, Portugal, and France. Passos said that the Lula administration's sound macroeconomic policies and New Energy Model offer security to foreign investors. The model establishes rules, offers consistency in planning, and stability in regulation, she said. When asked to expound upon the details of the model, Passos demurred, replying that only MME Minister Rousseff and Executive Secretary Tolmasquim could talk about specifics. Moreover, the GOB would not provide exchange rate or inflation guarantees under the new model, as these are too risky.

¶6. (SBU) COMMENT: The tone of Amaral's criticism of the energy model may have been occasioned in part by tensions over the GOB's efforts to reform the independent regulatory

agencies (Ref. B). The substance of his criticism, however, is right on the mark. Moreover, given a chance to defend its policy, our GOB interlocutors failed to provide the sort of specifics that would reassure potential investors. Based on what we have seen to date, the new energy model appears unlikely to attract significant new investment to the crucial power sector.

HRINAK